CBSE Test Paper - 01
Chapter - 10 Financial Markets

1. Under Private Placement Company sell securities to some selected institutions. From the following identify such institution. **(1)**
   a. UTI
   b. All of these
   c. LIC
   d. GIC
2. A Treasury bill is an instrument of ____________. **(1)**
   a. Interest
   b. Dividend
   c. Short term debt
   d. Long term debt
3. Securities Exchange Board of India (SEBI) was established in __. **(1)**
   a. 2001
   b. 1984
   c. 1988
   d. 1956
4. Accrual bond are also known as ____________. **(1)**
   a. Fixed interest Bonds
   b. Flate Rate Bonds
   c. Low Interest Bonds
   d. Zero Coupon Bonds
5. Which instrument indicate in the given statement."It is used for inter-bank transactions. It is short-term finance repayable on demand with a maturity period of one day to fifteen days". **(1)**
6. Give any two characteristics of secondary market. **(1)**

7. What is meant by ‘primary market’? **(1)**
8. SEBI recently called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the Preferential Access allegations at the Exchange's Co-location facility. State the function that SEBI performed by doing so. **(1)**
9. Differentiate between the two segments of financial market on any five basis. **(3)**
10. It is an institution which provides a platform for buying and selling of existing securities. Mention it. **(3)**
11. “To promote orderly and healthy growth of securities market and protection of investors, SEBI was set up”. With reference to this statement explain the objectives of SEBI. **(4)**
12. Explain Capital Market. Give two parts of capital market. **(4)**
13. The directors of Vinod Limited want to modernise its plants and machinery by making a public issue of shares. They wish to approach stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach stock exchange or a consultant for new public issue of shares and why?
    Also advise about the different methods which the company may adopt for the new public issue of shares. **(5)**
14. Explain the various money market instruments. **(5)**
15. Describe the trading and settlement procedure of stock exchange. **(6)**

Answer

1. b. All of these
   Explanation:
   A private placement is the sale of securities to a relatively small number of select investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds.
2. c. Short term debt
   Explanation:
   A treasury bill is an instrument of short term debt. Treasury bills are sold with maturities of four, thirteen, twenty-six and fifty-two weeks.
3. c. 1988
   Explanation:
   The Securities and Exchange Board of India is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers on 30 January 1992 through the SEBI Act, 1992.
4. d. Zero Coupon Bonds
   Explanation:

   A zero-coupon bond, also known as an "accrual bond," is a debt security that doesn't pay interest (a coupon) but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value.
5. "Call money" instrument
6. The two characteristics of secondary market are :
   i. It creates liquidity,
   ii. It has a particular place.

7. Primary market is the market in which firms sell (float) new stocks and bonds to the public for the first time. Therefore, it is also Is known as 'New Issue Market' (NIM).

8. Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. **Regulatory Function** was performed by SEBI as called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the Preferential Access allegations at the Exchange's Co-location facility.

9.

Basis	Capital market	Money market
Meaning	It refers to the whole network of organisations, institutions and instruments that deal in medium and long-term funds.	Money market is a market for short-term funds which deals in monetary assets whose period of maturity is upto one year.
Liquidity	Only actively traded securities have ready market.	In this market, there is a formal arrangement of creating liquidity.
Duration	Period of maturity is more than one year.	Period of maturity ranges from one day to one year.
Expected return	The expected returns are high as there is scope of earning capital gains and long-term prosperity is also shared by the company in form of high dividends and bonus issues.	The expected return is less due to short duration and lower risk.
Investment outlay	Investment outlay does not necessarily require huge investment outlay. The unit prices is low, i.e. Rs10, Rs100 and so even the trading lots are small, i.e. 5, 50, 100 etc.	Money market transactions entail huge sums of money as instruments are quite expensive.
	Individual investors, as well as	The participants are RBI,

Participants	institutional investors like financial institutions, banks, corporate houses and foreign investors, participate in the capital market transactions.	Commercial Banks financial institutions, mutual funds and corporate houses. Individual investors do not participate in money market.

10. Stock exchange- Organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply.
11. SEBI was set up with the aim of protection of investors and healthy growth of the securities market. Some objectives of SEBI are given below:
    i. Protection to the investors
    The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.
    ii. Prevention of malpractices
    This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.
    iii. Fair and proper functioning
    SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.
12. "Capital Markets" refers to activities that gather funds from some entities and make them available to other entities needing funds. The core function of such a market is to improve the efficiency of transactions so that each individual entity doesn't need to do search and analysis, create legal agreements, and complete funds transfer.The two parts of Capital Market are:
    i. Primary Market
    ii. Secondary Market
13. Directors of company should approach consultant or a stock exchange advisor/expert.

He will help the directors and company for the new issue of shares. After new issue of shares company will be able to fulfil its aim of modernising plants and machinery.

Stock exchange is a place where investors feel safe and secure while they make any transaction. Approaching stock exchange is the right choice for the company because it will assure the investors that their investments have high liquidity. Investors can convert their shares into cash any time by selling them in the stock market.

Company may follow different methods for public issue of shares:

a. Company may sell its shares to a particular group through private placement of shares. In this case general public cannot buy the shares of such company.
b. Company may offer its shares to the general public and may issue its prospectus to attract them to invest in company's shares.
c. Instead of issuing shares directly company may sell these shares to an intermediary at a fixed price and intermediary will resell them to the general public at a higher price.

14. Money market instruments are:

    i. **Commercial Bill:** A Commercial bill is also known as a bill of exchange. A Commercial bill is mainly used to provide sufficient working capital to a business firm. It is mainly suitable where goods are sold on credit. A seller may face the problem of working capital because his customers will pay the amount on a specified date. The seller could wait until the specified date or make use of a bill of exchange. If a seller needs funds quickly before the maturity date of the bill than this bill can be discounted with the bank. When a bill is accepted by the buyer, it is known as a trade bill and when this trade bill is accepted by the commercial bank, it is known as the commercial bill.
    ii. **Commercial Paper:** Commercial Paper is a short term unsecured instrument. It is negotiable and transferable by endorsement and delivery with a fixed maturity period. Commercial papers are usually issued by large and creditworthy companies with the purpose of raising short term funds. Commercial papers are sold at a discount and redeemed at par. The Maturity period of commercial paper is 15 days to one year. Funds arranged through commercial paper are used for

Bridge Financing i.e. to meet the floatation costs.

iii. **Call Money:** Call money refers to the short term finance with the maturity period of one day to fifteen days. It is mainly used for inter-bank transactions. It is compulsory for all commercial banks to maintain a minimum cash balance known as Cash Reserve Ratio. Call money is the amount borrowed by a bank from another bank to maintain the cash reserve ratio. The interest rate paid on call money is known as Call Rate. This rate is not fixed. It varies from hour-to-hour and day-to-day. When call rate is higher than other market instruments i.e. commercial paper and certificates of deposit etc. become relatively cheaper.

iv. **Certificate of Deposit:** Certificates of deposit are short term instruments issued by commercial banks and development financial institutions against the deposits. It is a bearer document. Mainly time period involved in the certificate of deposit is 91 days to one year. It is an unsecured and negotiable instrument. Certificate of deposit can be issued to individuals, corporations and companies. It is helpful in arranging large amount when companies/individuals are facing the problem of tight liquidity.

v. **Treasury Bill:** Treasury bills (T-bills) offer short-term investment opportunities, generally up to one year. They are thus useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely, 91-day, 182-day and 364-day. There are no treasury bills issued by State Governments. Treasury Bills are available for a minimum amount of Rs.25,000 and in multiples of Rs. 25,000. Treasury bills are issued at a discount and are redeemed at par. Treasury bills are also issued under the Market Stabilization Scheme (MSS).

15. i. **Selection of a Broker**

The first step is to select a broker, who will buy/sell securities on behalf of the speculator/investor. This is necessary because trading of securities can only be done through SEBI registered brokers, who are members of stock exchange. Brokers may be individuals, partnership firms and corporate bodies.

ii. **Opening Demat Account with Depository**

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks and stock brokers) to trade in listed securities in "electronic form.

The securities are held in the electronic form by a depository. ‘Depository’ is an institution/organisation which holds securities (e.g. shares, debentures, bonds, mutual funds, etc) in electronic form, in which trading is done.

iii. **Placing the Order**

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail, etc.

The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

iv. **Executing the Order**

According to the instructions of the investor, the broker buys or sells securities. The broker, then issues a contract note. A copy of the contract note contains the name and the price of securities, names of the parties, brokerage charges, etc. It is duly signed by the broker.

v. **Settlement**

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract. Equity spot markets follow a T + 2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. Stock, exchange operates from Monday to Friday between 9:55am and 3:30pm. Each exchange has its own clearing house, which assumes all settlement risk.